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ABSTRACT

A review was done of information on data and issues surrounding a possible tax allowance for interest payments on educational loans. The tax reform of 1986 eliminated the itemized deduction of interest paid on educational loans, effective in 1991. However, rising educational costs and continued reliance on borrowing for education has led Congress to consider proposals for tax relief in this area. An estimate of interest on the average amount of educational debt suggests that for an 8 percent 10-year loan of \$7,500 the interest paid would be \$582 annually. One argument in favor of favorable tax treatment of educational loan interest payments is that current law allows taxpayers who take home equity loans for consumer purposes to deduct those interest payments. In addition, if education is viewed as an investment in human capital, an educational loan interest payment should perhaps be deductible since the cost of investments in physical capital are deductible or depreciable. Another argument suggests that direct spending programs might be expanded for what a tax allowance for educational loan interest payments would cost. Finally, examination suggests that a deduction for educational loan interest payments would benefit only taxpayers who itemize rather than use the standard deduction. An annotated bibliography lists 10 suggestions for further reading.
(JB)

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Tax Allowance For Interest Payments On Educational Loans: Data and Discussion of Issues

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March 27, 1992

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TAX ALLOWANCE FOR INTEREST PAYMENTS ON EDUCATIONAL LOANS: DATA AND DISCUSSION OF ISSUES

SUMMARY

The *Tax Reform Act of 1986* eliminated the itemized deduction for interest paid on educational loans, fully effective for tax year 1991. Unless taxpayers use home equity loans to obtain funds for education expenses, interest payments on amounts borrowed for schooling no longer receive favored tax treatment. However, at a time when tuition and other higher education costs continue to increase, many students and their families must borrow to finance college and graduate or professional school. Concern about growing educational debt has led Congress to consider a number of proposals to provide tax relief.

A nationally representative Department of Education survey for the 1989-1990 academic year shows that college seniors with educational loans had average (mean) cumulative debt of \$7,246. Cumulative educational debt averaged \$11,429 for students in doctoral programs and \$25,969 for students in professional programs. Other surveys show that graduates of medical and dental schools who have educational loans have average debt near \$50,000. Interest payments on such debts are not known since educational loans have various interest rates and repayment periods. However, during the first year, the interest payments on an 8 percent 10-year loan of \$7,500 would be \$582; for a similar loan of \$50,000 they would be \$3,877.

One equity or fairness argument for providing favorable tax treatment of educational loan interest payments is that current law allows taxpayers who use home equity loans for consumer purposes (including education costs) to deduct their interest payments. Another equity argument is that current law treats families that have to borrow less favorably than those with savings.

If education is viewed as an investment in human capital, it might be argued that educational loan interest payments should be deductible since the costs of investments in physical capital would be either deductible or depreciable. Moreover, investments in physical capital often are favored by additional tax incentives. If education is viewed as consumption rather than investment, deductible interest payments might be justified to the extent the consumption was current.

Economists generally agree that education produces substantial "spillover" externalities benefiting society in general. However, nothing in this argument supports claims that educational subsidies should be part of the tax code. Arguably, direct spending programs might be expanded for what a tax allowance for educational loan interest payments would cost. A new education tax expenditure may raise questions about equity, targeting, and budget review.

A deduction for educational loan interest payments would benefit only taxpayers who itemize rather than use the standard deduction. Most recent college graduates can itemize only if they are homeowners or live in high tax States. In addition, the benefits of a deduction would be proportional to the taxpayers' marginal tax brackets. A tax credit would benefit more borrowers and arguably might be more equitable.

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TAX ALLOWANCE FOR INTEREST PAYMENTS ON EDUCATIONAL LOANS: DATA AND DISCUSSION OF ISSUES

The *Tax Reform Act of 1986* (Public Law 99-514) eliminated the itemized deduction for interest paid on educational loans, fully effective for tax year 1991. Unless taxpayers use home equity loans to obtain funds for education expenses, interest payments on amounts borrowed for schooling no longer receive favored tax treatment. However, at a time when tuition and other higher education costs continue to increase, many students and their families must borrow to finance college and graduate or professional school.¹ Concern about growing educational debt has led to a number of bills being introduced in the 102d Congress to provide relief through the tax code. Congressional examination of various legislative proposals has been spurred since President Bush proposed restoring the deduction for education loan interest payments as part of the fiscal year 1993 budget.²

PRIOR AND CURRENT TAX LAW

Prior to the *Tax Reform Act of 1986*, interest paid on any loan — including consumer loans, student loans, or loans made to finance purchases of homes — was allowable as an itemized deduction under the Federal income tax. With some limited exceptions, the use of loan proceeds did not affect interest deductibility. It should be noted that taxpayers could deduct interest only if they did not use the standard deduction (then called the zero-bracket amount).

¹ According to the College Board, average cost of attendance (tuition, fees, books, room and board, transportation, etc.) in the 1991-1992 school year for in-State students at public 4-year colleges is \$7,584; for students at private 4-year colleges it is \$16,292. Costs for commuter students are lower. Educational loans now represent about 50 percent of all student aid.

² In response to the budget proposals, the Congress passed and sent the *Tax Fairness and Economic Growth Act of 1992* to the President. The legislation was vetoed; Congress could not override the veto. Included was a provision which would have allowed individuals a nonrefundable credit equal to 25 percent of the interest paid on qualified education loans. A maximum credit of \$400 per individual was subject to a phaseout range of \$40,000-\$65,000 for unmarried individuals, \$60,000-\$85,000 for married individuals filing joint returns, and \$30,000-\$42,500 for married individuals filing separate returns. The credit would have been allowed only for the first 48 months during which interest accrues on the loan. Not allowable was carryforward of excess interest or unused credit amounts. Also, the credit was not allowed for education loan interest for which a deduction was claimed under any other code section.

Under the *Tax Reform Act of 1986*, consumer (sometimes called personal) interest was made not deductible.³ Interest payments on educational loans are classified as consumer interest. Disallowance of the deduction was phased in over a five-year period, beginning with 35 percent in 1987 and rising to 60 percent in 1988, 80 percent in 1989, and 90 percent in 1990. Deductibility of personal interest was completely repealed as of January 1, 1991. This change was part of the general theme of tax reform to broaden the base of taxable income so that tax rates could be reduced.

Home mortgage interest is subject to different rules. For taxpayers who itemize deductions, interest is deductible on loans of up to one million dollars used to acquire a first and second home. In addition, the interest expense on home equity loans, up to \$100,000, is deductible for itemizers. The total of acquisition indebtedness and home equity indebtedness may not exceed the fair market value of the home.⁴ Home equity loans offer a vehicle for taxpayers who own homes and have equity to borrow against to continue to deduct interest expenses made for consumer purchases, including education.

LEVELS OF EDUCATIONAL DEBT

Comprehensive data do not exist regarding interest payments on educational loans. While program information is available about new federally guaranteed educational loans made each year (these probably represent the majority of educational loans), this does not show the cumulative debt for individual borrowers. Students might receive one or more loans every year they are in school. In addition, federally guaranteed loans, like other educational loans, have various interest rates, repayment periods, deferment rules, and minimum payment requirements that make it difficult to estimate total interest payments on the basis of national loan volume figures.⁵

Nonetheless, some perspectives on educational loan interest payments can be obtained from surveys that ask about cumulative educational debt. A nationally representative Department of Education survey for the 1989-1990 academic year shows the following levels of average (mean) cumulative debt for students with educational loans:⁶

³ Disallowance of a deduction for personal interest is in sec. 163(h) of the Internal Revenue Code.

⁴ Special rules are in effect for loans made prior to October 13, 1987.

⁵ U.S. Department of Education. *The Student Guide: Financial Aid from the U.S. Department of Education*, 1992-93. Washington, 1991.

⁶ These estimates, which were prepared by the U.S. Department of Education, are from the National Postsecondary Student Aid Study (NPSAS). Educational debt includes loans for educational purposes from all sources, including the student's family. Some family loans may have below market rate interest or no

TABLE 1. Average Cumulative Debt
for Educational Loans

Freshmen/first-year	\$3,133
Sophomore/second-year	4,302
Junior/third-year	5,764
Senior/fourth-year	7,246
Master's programs	8,078
Doctoral programs	11,429
Professional programs	25,969

This Department of Education survey also found that financially dependent undergraduate students with educational loans who come from higher income families generally have higher levels of cumulative debt. Among the possible reasons for this pattern are that students from higher income families are more likely to attend higher cost schools and generally have less access to need-based grants. In addition, their parents generally have better credit and can cosign their notes.

Other surveys show that students who complete professional schools have even higher levels of educational debt: 1990 medical school graduates, for example, had average (mean) debt of \$46,224, while 1991 dental school graduates had average debt of \$52,130.⁷ The loan figures shown above indicate that interest payments on educational debt will vary widely. Table 2 provides examples of how first year and total interest payments differ according to total debt:

TABLE 2. Monthly Loan Payments, First-Year Interest,
And Total Interest Paid for 10-Year Loans
(at 8 Percent Compounded Monthly)

Amount borrowed	Monthly loan payments	First-year interest	Total interest
\$4,500	\$54.60	\$349	\$2,052
7,500	91.00	582	3,419
27,500	333.65	2,132	12,538
50,000	606.64	3,877	22,796

interest charges at all, and they may not have to be paid back.

⁷ The Association of American Medical Colleges (Graduation Questionnaire Summary Report for 1990) and the American Association of Dental Schools (Survey of Dental Seniors). These surveys may not be representative of all students with educational debt who graduated from these schools.

It should be emphasized that the data in table 2 are hypothetical presented only for purposes of illustration; actual educational loans have various interest rates and repayment periods.⁸

On loans with regular amortization, interest payments generally are highest during the first year since each succeeding month the amount of outstanding principal is reduced. This pattern, which also affects the benefits from a tax deduction or credit, is illustrated in table 3 for a \$7,500 loan.

TABLE 3. Yearly Payments of Interest and Principal
for \$7,500 Borrowed under a
10-Year Loan at 8 Percent Compounded Monthly

Year	Interest Paid	Principal Paid
1	\$582	\$510
2	539	553
3	493	599
4	444	648
5	390	702
6	332	760
7	268	824
8	200	892
9	126	966
10	46	1,046
Total	\$3,420	\$7,500

DISCUSSION OF ISSUES

The following discussion focuses on several issues regarding a possible tax allowance for interest payments on educational loans. To begin with, two underlying goals of tax policy are considered, tax equity (providing comparable tax treatment to all classes of taxpayers) and economic efficiency (minimizing the distortion of market forces). Second, favorable tax treatment of educational loan interest payments might be viewed as a tax expenditure that can be compared with Federal program expenditures. Finally, the advantages and disadvantages of using a tax credit instead of a deduction are discussed.

⁸ For new borrowers of Stafford Loans, a Federal guaranteed student loan, the interest rate generally is 8 percent for the first 4 years of repayment and 10 percent thereafter. PLUS loans (for parents) and Supplemental Loans for Students, two other Federal guaranteed loans, have variable interest rates with a ceiling of 12 percent. Perkins Loans, a Federal loan program administered by colleges and universities, have 5 percent interest, as do Health Professions Student Loans.

EQUITY AND EFFICIENCY

One equity or fairness argument for providing favorable tax treatment of educational loan interest payments is that current law allows taxpayers who use home equity loans for consumer purposes to deduct their interest payments. As previously mentioned, this interest is deductible whether such loans are used to purchase automobiles, pay credit card bills, pay educational expenses, or do almost anything else. In contrast, current law permits no deduction for consumer interest loans not secured by home equity even though the loan proceeds are used for the same purposes. Thus, current law violates horizontal equity principles in that taxpayers with similar expenses are not treated equally.

Another equity issue involves the treatment of borrowers compared to those who use their savings. Consider two families each needing \$5,000 for a child's tuition. Both are in the 28 percent tax bracket. The first family has \$5,000 in a money market fund paying 5-percent interest, or \$180 annually after taxes. When it withdraws the \$5,000 from the money market fund to pay the tuition, its total one-year cost is \$5,180 (the \$5,000 plus the \$180 aftertax interest it gives up). The other family must borrow \$5,000 at 5-percent interest to pay the tuition. If the \$250 interest it pays were deductible, its total one-year cost would also be \$5,180; but because it is not, the total cost is \$5,250. Current law thus treats families that have to borrow — generally those with fewer assets to begin with — less favorably than those with savings. The different tax treatment of borrowing and saving also raises an economic efficiency issue since it may distort market decisions about how to finance education.

There is also an efficiency issue in the treatment of educational expenses in general. To the extent that education is seen as an investment in human capital, the tax treatment of its cost might be compared with that for investment in physical capital (for example, machinery used in production). While not all studies have consistent findings, it has been shown that human capital investment probably is taxed at rates equal to or greater than rates applying to investments in physical capital.⁹ This conclusion is clear for the direct costs (tuition and books, etc.) associated with postsecondary education undertaken before employment and for which most educational loans are incurred. Under current law, the direct costs of such education are neither deductible nor depreciable, unlike costs associated with investments in physical capital. Moreover, investments in physical capital have often been favored by additional tax incentives such as accelerated cost recovery schedules. Allowing a deduction or credit for interest payments

⁹ For a discussion of tax burdens on human capital investment see: U.S. Library of Congress. Congressional Research Service. *Effective Tax Burdens on Human Investment Under the Income Tax and Proposed Consumption Tax*. Report No. 84-741 E, by Jane G. Gravelle. Washington, 1984.

on educational loans could be seen as making up for some of this difference in treatment.¹⁰

However, to the extent that education is seen as consumption rather than investment, the proper tax treatment of its related interest costs is less clear. Many people recognize that education involves elements of self-fulfillment and social life that are unrelated to investment. Tax law already recognizes that some education is of this character: for example, education costs can be deducted as a business expense only if courses meet strict tests for being related to one's current job.¹¹ That some education is consumption may also be why Federal student aid is unavailable to students who only take occasional courses: to be eligible for aid, the *Higher Education Act* requires enrollment in a degree, certificate, or other program leading toward a recognized educational credential.¹²

If the consumption associated with education is immediate, it would seem appropriate to allow a deduction for interest costs (though in contrast to viewing education as investment, not for the other costs).¹³ Under the Haig-Simons definition of income, when a loan is initiated there is no effect on income: cash is received in exchange for a liability of equal value, leaving net wealth unchanged. The same is true (in reverse) when the loan is paid off: cash is given up and a liability of equal value is discharged, once again leaving net wealth unchanged. However, there is an effect on income from the accrual of interest during the term of the loan. The accruing interest obligation increases the effective liability of the loan without increasing wealth; that is, it is a cost that reduces income. In order for economic income to be properly measured, this cost should be deductible as the interest is paid. In other words, the interest charges represent the cost of a time payment preference, not additional consumption.

¹⁰ In addition to direct costs, education often involves significant opportunity costs in the form of wages that could have been earned during periods of enrollment. It sometimes is argued that the exclusion of foregone earnings from taxable income is tantamount to the immediate expensing of these opportunity costs and represents a tax advantage for investment in human capital that is not available for investment in physical capital. Quigley, John M. and Eugene Smolensky. *The tax treatment of training and educational expenses*. U.S. Department of Labor. Commission on Workforce Quality and Labor Market Efficiency. *Investing in People: a Strategy to Address America's Workforce Crisis*. Washington, 1989. p. 814.

¹¹ Regulations 1.162-5. It might also be noted that the exception to these rules authorized under sec. 127 does not apply to courses involving sports, games, or hobbies.

¹² Sec. 484(a)(1).

¹³ This argument applies as well to interest payments for other forms of immediate consumption. The logic suggests that all such interest should be deductible, contrary to the *Tax Reform Act of 1986*, not that education should be treated differently from other forms of consumption.

Yet some consumption associated with education may not be immediate. Arguably, educated people continue to enjoy life (through greater self-fulfillment, for example) far beyond the time they are enrolled in school. In this respect, the consumption component of education is like a consumer durable that provides returns over time. If income were properly measured, this extended consumption should be taken into account; as it is not, it might be argued that the cost of its financing should be ignored as well. One income mismeasurement is used to offset another.¹⁴ It might also be held that education financed by loans represents an acceleration of consumption; in this case, the interest payments could be viewed as part of the value of consumption and therefore should not be deductible.

In truth, much education probably consists of a mixture of investment, immediate consumption, and delayed consumption; this complicates analysis of the proper tax treatment of educational loan interest payments.

TAX EXPENDITURE ISSUES

It is generally agreed by economists that education produces substantial "spillover" externalities benefiting society in general. Examples cited of such positive spillover effects include a more efficient workforce, lower unemployment rates, lower welfare costs, and less crime. An educated electorate is said to foster a more responsive and effective government. Since these benefits accrue to society at large, they are a strong argument in favor of the government actively promoting education.

There is nothing in this argument, however, to support claims that educational subsidies should be a part of the tax code. The argument could equally well support claims for direct governmental subsidies to students and educational institutions. Currently the U.S. Department of Education alone provides nearly \$19 billion in financial assistance to 5 million postsecondary students — some in grants and work-study awards, some in loans with interest subsidies, and some in guarantees and interest subsidies for loans made by banks and other non-Federal agencies and organizations.¹⁵ Arguably, these Department of Education programs

¹⁴The same logic is behind the disallowance of interest payments on loans used to purchase tax-exempt bonds. Since the interest earned on these bonds is not taken into account for tax purposes, the cost of financing their acquisition is not either.

¹⁵ It might also be noted that current law already provides favored tax treatment for student financial aid. For example, scholarship income is tax-exempt up to the amount needed for tuition, fees, and required books and supplies; interest subsidies are totally tax-exempt; and public-source loans that are forgiven because of public service do not have to be counted as income.

might be expanded for what a tax allowance for educational loan interest payments would cost.¹⁶

A comparison of expanded student aid programs and a tax allowance for educational loan interest payments involves several questions. With respect to equity, it might be noted that Federal student aid programs are "need-based": eligibility and amount of assistance are determined by formulas that take into account the cost of education and family resources, along with student earnings and savings. Without special limitations, however, the proposed tax allowances would not be directly affected by these factors; for an equal amount of debt, benefits could be the same whether students attended expensive or inexpensive schools, came from wealthy or poor families, or had ample or meager assets. A tax deduction could even result in larger benefits for higher income taxpayers, as explained in the next section.¹⁷ It might also be questioned why college graduates, who on average can expect substantially greater lifetime earnings than those who only complete high school, should receive additional subsidies once they complete school. Nonetheless, a tax allowance might be seen as equitable from the standpoint of students who did not receive grants or scholarships, neither of which are taxable (up to the amount for tuition, fees, books, etc.) nor have to be paid back, or from the standpoint of students who attended private educational institutions that do not receive direct public subsidies.

A second tax expenditure question is whether Federal subsidies for education should be targeted or made generally available. To the extent that targeting is desirable — focusing assistance on certain kinds of students, for example, or on types of education considered most important — it might be preferable to use student aid or institutional grants than tax allowances. It would seem easier to administer restricted subsidies through student aid delivery systems, which determine eligibility prior to disbursement, rather than through the tax system, which relies upon subsequent checks and controls. Similarly, to the extent that educational debt discourages graduates from working in public service jobs — for example, rural health clinics or neighborhood legal service centers — it might be more efficient to provide additional subsidies directly for such work. On the other hand, if it were decided that educational subsidies should be generally available, tax allowances may be easier and less-expensive to administer for those that qualify.

¹⁶ The Department of the Treasury estimates that a tax deduction for interest payments on educational loans would result in a revenue loss of about \$3.6 billion for fiscal years 1992 through 1997. The Joint Committee on Taxation estimates that the limited tax credit for such payments would result in a revenue loss of \$500 million over the same period.

¹⁷ From the standpoint of need-based student aid, the deductibility of home equity loans used for educational expenses is difficult to justify. Much of the benefit of this deduction may go to middle and upper-middle income families that otherwise would not be able to obtain need-based assistance.

Finally, opponents of an expansion of tax expenditures related to education might note that the proposed allowances for educational loan interest payments would increase current revenue losses and, in this time of large Federal budget deficits, result in additional funding constraint for other Federal programs. An often cited disadvantage of tax expenditures is that typically they are not reviewed or acted upon in the normal budget process. Comparisons with direct spending programs are infrequent; often jurisdiction is split between different congressional committees. The proposed tax allowances for educational loan interest payments probably would not be considered in the context of other postsecondary education policy changes recommended in the President's FY1993 budget. Since tax expenditures normally are not subject to periodic review, they sometimes grow in size in ways that direct spending programs would not.

TAX CREDITS OR DEDUCTIONS?

A tax allowance for interest payments on educational loans could take the form of either a deduction or a credit against tax. Each has advantages and disadvantages.

One disadvantage of deductions is that they benefit only taxpayers who itemize rather than use the standard deduction.¹⁸ For tax year 1989, only about 28 percent of taxpayers itemized. Table 2 presented previously suggests that based on educational loan interest expense alone, many taxpayers with educational loans would not itemize: even taking interest payments into account, their total deductions generally would not be as large as the standard deduction. (The standard deduction, which is indexed for inflation, is \$3,600 for single taxpayers and \$6,000 for married taxpayers filing jointly in 1992.) Consider recent college graduates with educational loans totaling about \$7,500 (which is about the average debt for seniors in table 1): their interest payments during the first year of repayment would be \$582 (using the assumptions in table 2), far less than the standard deduction amount. As a practical matter, most recent college graduates can itemize deductions only if they are homeowners making mortgage interest and property tax payments or if they pay high State income taxes.¹⁹

Note that if college graduates became homeowners (and thus itemizers) 6 or 7 years after leaving school, their annual interest payments on educational loans would then be relatively small. Interest payments during the seventh year

¹⁸It should be recognized, however, that no taxpayer would ever be worse off by using the standard deduction, even if they would otherwise have deductible interest payments.

¹⁹ There are many expenses which may be itemized. Allowable deductions include expenditures for medical and dental care, real estate taxes and State and local income taxes, home mortgage interest and points, cash or property gifts to charity, casualty and theft losses, moving expenses, and certain expenses related to work or the production of income. Many of these deductions are subject to limitations.

of a \$7,500 loan (using the assumptions in table 3) would be only \$269, and they would decline sharply thereafter.

A deduction for educational loan interest payments would most likely benefit three groups of borrowers: parents who are homeowners, parents who live in high-tax States, and graduates of professional schools. With the deduction, homeowners would not have to use home equity loans in order to deduct interest payments; they could avoid fees associated with such loans and not put their homes at risk.²⁰ Parents who live in high-tax States might be able to deduct interest payments even if they were not homeowners. Similarly, professional school graduates with their commensurate higher incomes would receive help with the thousands of dollars in interest payments they must make (see table 2).

A possible disadvantage of deductions is that their benefits are proportional to taxpayers' marginal tax rates. A deduction for \$500 in interest payments would result in tax savings of \$75 for taxpayers with a 15-percent marginal tax rate but \$140 for those with a 28-percent marginal rate. Since taxpayers with higher incomes have higher marginal rates, higher income borrowers would benefit more from a deduction for educational loan interest payments.²¹

Tax credits, which are akin to direct government grants, do not have these limitations. Credits decrease tax liabilities of all taxpayers by specified amounts (for example, by \$1 for each \$4 in interest paid); if greater than the tax liability, they can either reduce it to zero or result in a refund for the difference (the latter credits are called refundable). The point is that credits are not affected by taxpayers' marginal tax rates or by whether they itemize or use the standard deduction.

A refundable credit would be appropriate if the purpose is to provide equal benefit to all taxpayers making the same interest payments.²² From this perspective, income and other tax attributes are not considered relevant. On the other hand, a deduction may be more appropriate if the purpose is to provide equity with the treatment of other forms of investment. A deduction might also

²⁰ On the other hand, interest rates generally are higher on loans not secured by home equity.

²¹ For taxpayers filing single returns, marginal tax rates on taxable income for 1992 are 15 percent of \$21,450 or less; 28 percent of amounts over \$21,450 and less than \$51,900; and 31 percent of amounts over \$51,900. For married taxpayers filing joint returns, the rates are 15 percent of \$35,800 or less; 28 percent of amounts over \$35,800 and less than \$86,500; and 31 percent of amounts over \$86,500. Other ranges apply to heads of households and married taxpayers filing single returns.

²² For federally guaranteed student loans (which probably represent the majority of educational loans), a simpler way to provide some economic relief to borrowers would be to increase the interest subsidy the Federal Government pays lenders.

be more appropriate if the principal concern is for borrowers who have the greatest loan burden.

The benefits of both credits and deductions can be reduced for higher income taxpayers. As one example, a credit might be modeled on that for child care expenses in section 21 of the Internal Revenue Code: it declines as adjusted gross income rises to \$28,000 and is level thereafter. In the case of a deduction, a restriction might be modeled on section 68 of the Internal Revenue Code: under that code section itemized deductions are reduced by 3 percent of adjusted gross income in excess of \$100,000 (indexed for inflation), though the reduction cannot be more than 80 percent.²³ Obviously a lower adjusted gross income level would be more appropriate for limiting the deduction for educational loan interest payments.

FURTHER READING

Argrett, Loretta Collins.

Tax treatment of higher education expenditures: an unfair investment disincentive. *Syracuse law review*, v. 41, no. 2, 1990: 621-659.

Article asserts that cost recovery of educational expenditures should be allowed so that "the tax law's definition of taxable income will be improved."

Davenport, David S.

The 'proper' taxation of human capital. *Tax notes*, v. 52, Sept. 16, 1991: 1401-1411.

Outlines "some thoughts on the taxation of human capital accumulations and implications for the recovery of tuition, interest, and other education costs and for the treatment of scholarships and other education assistance. I believe that a unified approach to human capital taxation would include a comprehensive cost recovery system, utilizing an accelerated method of recovery for education capital costs as a normative matter (and not simply as a 'tax expenditure' for education)."

Gross, Clifford.

Tax treatment of education expenses: perspectives from normative theory. *University of Chicago law review*, v. 55, summer 1988: 916-942.

"This Comment concludes that education interest expenses should be available as a deduction to all taxpayers," not only to those who secure their loans with their homes as prescribed by the Tax Reform Act of 1986.

Guerre, R. Paul.

Financial aid in higher education: what's wrong, who's being hurt, what's being done. *Journal of college and university law*, v. 17, spring 1991: 483-533.

²³ This provision terminates after December 31, 1995.

This Note first analyzes the three factors that have contributed to the current financial-aid crisis: (1) the rising cost of tuition; (2) adverse changes in the federal-tax laws; and (3) the shift in emphasis of federal and state policies from grants to loans. The Note next discusses the responses to this crisis at the federal and state levels, and assesses their relative merits. The underlying objective of this Note is to place the components of the financial-aid puzzle in a manageable framework to promote more informed and effective policy choices."

Kelly, Marci.

Financing higher education: Federal income-tax consequences. *Journal of college and university law*, v. 17, winter 1991: 307-328.

This Article "focuses on the federal income-tax treatment of scholarships, prizes, loans and employment. For each category, historical context and current provisions of the tax law are explained, together with suggestions for application. Related consequences of the examined rules are also identified."

Lebowitz, Brian E.

On the mistaxation of investment in human capital. *Tax notes*, v. 52, Aug. 12, 1991: 825-831.

Contents "that one of the relatively basic principles of U.S. tax policy--that educational expenses incurred to prepare an individual for a career are not recoverable for tax purposes--is unsound tax policy, both because it unreasonably discourages investments in human capital relative to other forms of capital and because it violates elementary principles of tax equity. The essay then proceeds to rebut the major arguments that have been used to rationalize denying recovery of basic educational expenses. Finally, it outlines a specific proposal for allowing the recovery for tax purposes of amounts invested in career-oriented education."

Mortenson, Thomas G.

The impact of increased loan utilization among low family income students. *Iowa City, American College Testing Program*, 1990. 63 p.

"This paper examines economic investment theory and attitudinal and behavioral data on loans, investment, risk and default to identify the population groups most likely to be reluctant to use loans to finance their higher educational investment and to be unsuccessful when they do use student loans to finance educational costs."

Quigley, John M. Smolensky, Eugene.

The tax treatment of training and educational expenses. In *U.S. Dept. of Labor, U.S. Commission on Workforce Quality and Labor Market Efficiency. Investing in people: a strategy to address America's workforce crisis. Washington, 1989. p. 805-850.*

"This paper evaluates the tax treatment of investments in the most important components of human capital, the education and training of workers, under both the personal and corporate tax codes. It focusses on the ways in which the current tax laws affect the relative attractiveness of

investments in human capital compared to other investments. First, the provisions of the personal tax code are analyzed to determine which types of education and training are favored or discouraged by current law. Second, this paper examines the effects of tax law on investment in human and physical capital, on the one hand, and investment in research and development, on the other hand. This latter analysis is based upon the corporate tax code."

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